

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

June 16, 2009

The Capital Projects and Bond Oversight Committee met on Tuesday, June 16, 2009, at 1:00 PM, in Room 169 of the Capitol Annex. Senator Bob Leeper, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Bob Leeper, Co-Chair; Representative Susan Westrom, Co-Chair; Senators Tom Buford, Julian M. Carroll, and Elizabeth Tori; Representatives Robert R. Damron and Steven Rudy.

Guests: Larry Owsley, University of Louisville; John Hicks, Governor's Office for Policy and Management; Sam Ruth, Facilities and Support Services; Charles Bush, Division of Real Properties; Sandy Williams, Kentucky Infrastructure Authority; Katie Smith, Department of Financial Incentives; Brett Antle, Office of Financial Management; Tom Strohmeier, Morgan Keegan; Mike Walters, Morehead State University; and Brandon Loporto, Summit Housing Partners.

LRC Staff: Don Mullis, Kristi Culpepper, Shawn Bowen, and Samantha Gange.

Senator Carroll made a motion to approve the minutes of the May 14, 2009, meeting. The motion was seconded by Senator Tori and approved by voice vote.

Senator Leeper called on Don Mullis, Committee Staff Administrator, to discuss correspondence and information items. Mr. Mullis said members' folders contained a correspondence item from the University of Kentucky (UK) related to the lease-purchase of Samaritan Hospital. Mr. Mullis also noted that members' folders contained the staff and market updates.

Senator Leeper asked Mr. Mullis to report on the allocations from the Research Challenge Trust Fund and the Comprehensive University Trust Fund (CUETF) for postsecondary education due to a representative from the Council on Postsecondary Education (CPE) not being available. Mr. Mullis said that the 2008 General Assembly authorized \$50 million in General Fund supported bonds for the 2008-09 Research Challenge Trust Fund to support the Endowment Match Program and a newly created Research Capital Match Program. Funds from the Research Capital Match Program will allocate \$33.3 million to UK and \$16.6 million to the University of Louisville (UL). HB 406 also authorized \$10 million in bond funds for the CUETF. These funds will be allocated among the six comprehensive universities.

Mr. Mullis said that CPE is reporting to the Committee that it has received reports from Morehead State University (MoSU) and Murray State University regarding allocations of the CUETF. CPE reviewed the reports and found them in compliance with the guidelines. Mr. Mullis also reported that UK has received pledges sufficient to provide the match for the approved Digital Village project.

Senator Leeper then called on Larry Owsley, Vice President of Business Affairs, UL, to present an unbudgeted project. Mr. Owsley said that UL is requesting authorization to renovate Ernst Hall. The renovated space would be used for the Conn Center for Renewable Energy Research and Environmental Stewardship. The university has received a \$20 million donation to establish the program. The project scope is estimated to be \$1.5 million and will be funded from at least 50 percent private funding.

Senator Carroll asked if this project was a matching program. Mr. Owsley responded that it was not a matching program.

Mr. Mullis noted that the project has not yet been approved by CPE however, UL requested approval from the Committee contingent upon approval by CPE at its July 2009 meeting.

Senator Buford made a motion to approve the unbudgeted project for UL to renovate Ernst Hall. The motion was seconded by Senator Carroll and passed unanimously by roll call vote.

Next Senator Leeper called on John Hicks, Deputy Budget Director, Governor's Office for Policy and Management, and Sam Ruth, Commissioner of Facilities and Support Services, Finance and Administration Cabinet, to discuss two reporting items. Mr. Hicks first reported that the Finance and Administration Cabinet has allocated \$16,295,000 from the 2008-10 Budget authorization for the Kentucky River Authority – Kentucky Locks and Dams Maintenance and Renovation Pool for construction of Dam 3. The total cost for the project is \$18,230,400. No Committee action was needed.

Senator Buford asked if Dam 9 was near completion. Mr. Hicks responded that he thought the project was almost completed.

Senator Buford asked if construction on Dam 3 has begun. Mr. Hicks responded that the project has just been bid and construction would start soon.

Mr. Hicks next reported that the Finance and Administration Cabinet has allocated \$990,000 from the Department's bond-funded maintenance pool for the Main Building Roof Replacement project at the Kentucky Correctional Institute for Women. The project will address issues related to poor drainage and water leaks into the living areas of the building. The current roofs are over 25 years old. No Committee action was needed.

Senator Tori asked if the remaining balance in this pool account is sufficient to address other facilities' needs. Mr. Hicks responded that approximately \$290,000 remains in the pool.

Senator Tori asked what was the normal life of a roof. Mr. Ruth responded that 20 years is the norm.

Senator Leeper then called on Charles Bush, Director, Division of Real Properties, Finance and Administration Cabinet to report on a lease modification. Mr. Bush said that the lease modification was for the State Services Organization, Inc., Office of the Governor in Washington, D.C. (PR-4647). The Governor's Office has leased space in the Hall of States in Washington, D.C. and has requested reduced space. The cost of the lease will decrease by \$63,156 annually and expires January 31, 2014. No Committee action was needed.

Senator Leeper called on Sandy Williams, Financial Analyst, Kentucky Infrastructure Authority (KIA) to present 11 Fund A loan requests for Sanitation District No. 1 (District), a Fund F Loan for Ohio County, a Fund B grant for Bath County and several coal/tobacco grants. The first loan request was for a Fund A loan for the District (Boone, Kenton, and Campbell Counties). The District is requesting a \$20 million increase to the \$50 million Fund A loan approved by the Committee in May 2008 to construct a new 20 million-gallons-per-day (MGD) wastewater treatment plant. The new loan amount is \$83,147,554. The loan term is 20 years with an interest rate of one percent. The project will address a Consent Decree the District entered into with the U.S. Environmental Protection Agency (EPA), Kentucky Environmental and Public Protection Cabinet, and the U.S. Department of Justice requiring an approximately \$880 million investment to address sewage outflows in the region.

The second loan request was a \$4,473,000 Fund A Loan for the District to replace the 30-year-old main drives, feed assemblies, and sludge collector mechanisms for four final clarifiers at the Dry Creek Wastewater Treatment Plant. This project will address the Consent Decree. The loan term is 20 years with an interest rate of two percent.

The third loan request was a \$5,592,000 Fund A loan for the District to construct a gravity sewer and related appurtenances from the Diversions Pump Station and Turkeyfoot Force Main West to the Western Regional Collection System. This project will address the Consent Decree. The loan term is 20 years with an interest rate of two percent.

The fourth loan request was a \$15,230,000 Fund A loan for the District to construct various gravity sewers leading to the Western Regional Collection System to

eliminate combined sewer overflow. This project will address the Consent Decree. The loan term is 20 years with an interest rate of two percent.

The fifth loan request was a \$5,768,000 Fund A Loan for the District to construct a gravity sewer and associated appurtenances along the South Fork of Gunpowder Creek to eliminate combined sewer overflows. This project will address the Consent Decree. The loan term is 20 years with an interest rate of two percent.

The sixth loan request was a \$2,470,000 Fund A loan for the District to construct a ductile iron force main and associated appurtenances. This project will address the Consent Decree. The loan term is 20 years with an interest rate of two percent.

The seventh loan request was a \$9,900,000 Fund A loan for the District to construct a 20.5 MGD peak flow capacity diversion pump station. This project will address the Consent Decree. The loan term is 20 years with an interest rate of two percent.

The eighth loan request was a \$395,000 Fund A loan for the District to construct a sanitary sewer line at Banklick Creek. This project will address the Consent Decree. The loan term is 20 years with an interest rate of two percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

The ninth loan request was a \$740,000 Fund A loan for the District to construct a 3-acre wetland site located immediately upstream of Banklick Creek. This project will address the Consent Decree. The loan term is 20 years with an interest rate of two percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

The tenth loan request was a \$2,000,000 Fund A loan for the District to retro-fit an 80,000 square foot basin with a regional bioretention facility. This project will address the Consent Decree. The loan term is 20 years with an interest rate of two percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

The eleventh loan request was a \$1,000,000 Fund A loan to provide reforestation and construction of storm water management improvements. This project will address the Consent Decree. The loan term is 20 years with an interest rate of two percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

In response to questions from Senator Leeper, Ms. Williams said that the District represents about 20 percent of the KIA Fund A loan portfolio. KIA has been in contact with the rating agencies and it is not unusual for an SRF program to have a high concentration in one borrower. KIA will obtain underwriting and bond counsel for the

issuance of leveraged bonds. She also said the ratings agencies told KIA that this will not negatively impact any of the bond issuances.

Senator Leeper asked what the current status was of KIA's leveraged bond program. Ms. Williams said that KIA has authorization to issue \$200 million for the Clean Water Program and \$30 million for the Drinking Water Program. KIA has made loan commitments for all of the leveraged funds.

Senator Carroll asked what percentage of the revenue is committed to bond repayment for the District. Ms. Williams responded that she was not sure of the exact percentage, but that the District has a strong debt service coverage ratio.

Senator Leeper asked if the District expects to issue its own bonds to fund a portion of the projects to address the Consent Decree. Ms. Williams responded affirmatively.

Senator Carroll made a motion to approve the 11 Fund A loan requests for the District. The motion was seconded by Senator Tori and passed unanimously by roll call vote.

Ms. Williams then presented a Fund B grant for Bath County Water District in Bath County. KIA is reporting the reissuance of a \$250,000 grant agreement for various improvements related to the expansion of Custom Foods' facilities, including upgrading a pump station, constructing a water tank, and installing generators. The Committee approved the grant in January 2007, but the grant was placed on hold due to personnel changes and lack of funding. No Committee action was needed.

Senator Buford asked why the engineering fees were so high. Ms. Williams responded that there was some opposition to the location of the water tank and extra work was needed to address the issue.

Next Ms. Williams presented a Fund F loan for Ohio County Water District (District) in Ohio County. The District is requesting a \$2 million increase to the previously approved \$3 million loan to construct a new 4 MGD water treatment plant. The new treatment plant will replace an existing 2 MGD plant and offset the loss of treated water supplied to the District by a poultry processing facility. The new loan amount is \$5 million. The loan term is 20 years with an interest rate of one percent.

Senator Leeper asked why the rebid for the project was lower than the original bid. Ms. Williams responded that the project was originally bid in the fall of 2008 and resulted in \$5 million over the projected cost. The District decided the customer base could not afford a rate increase to cover the costs. However, during this time the District

was able to secure a \$550,000 grant and the project was re-bid in May 2009 and came in at a lower project cost because of lowered construction costs.

Senator Carroll made a motion to approve the Fund F loan increase for Ohio County Water District. The motion was seconded by Representative Westrom and passed unanimously by roll call vote.

Ms. Williams indicated that various coal and tobacco development grants authorized by the General Assembly were included in members' folders. Each project was authorized in a budget bill and no further Committee action was needed.

Senator Leeper called Katie Smith, Deputy Commissioner, Department of Financial Incentives, Cabinet for Economic Development, to the table. Ms. Smith asked for the approval of a new Economic Development (EDB) grant for the Crittenden County Fiscal Court for the benefit of Safetran Systems Corporation (Safetran) in Marion, Kentucky. The grant amount is \$525,000 to offset the cost of expanding the company's Marion, Kentucky operations through the acquisition, improvement, and equipping of a 110,000 square-foot facility on 24 acres. Safetran is a supplier and manufacturer of switch machines, railroad wayside signal systems, rail transit signaling, and rail-highway grade crossing active warning systems for the railroad industry headquartered in Louisville, Kentucky. In consideration of the grant, Safetran has agreed to create 150 full-time jobs for Kentucky residents paying an average hourly wage of \$13.00, excluding benefits, within three years of completing and occupying the facility, in addition to maintaining the company's existing workforce.

Senator Buford asked why a Safetran subsidiary is laying off most of the employees at one of its locations in Florida. Ms. Smith responded that Safetran is opening an administrative facility in Louisville and can relocate those employees.

Senator Carroll made a motion to approve the EDB grant for Safetran. The motion was seconded by Representative Rudy and approved unanimously by roll call vote.

Senator Buford asked if Safetran is experiencing any financial difficulties. Ms. Smith said she would provide the information to the Committee.

Next Senator Leeper called on Brett Antle, Deputy Director, Office of Financial Management to discuss several items. Mr. Antle presented a new bond issue for State Property and Buildings Commission (SPBC) Revenue and Revenue Refunding Bonds, Project No. 95 Series A, B, C, and D in a principal amount not to exceed \$425 million. Proceeds from this bond issue will provide permanent financing for approximately \$230 million General Fund supported projects authorized in HB 267 (2004-06 Budget), HB 380 (2006-08 Budget), and HB 406 (2008-10 Budget), and 2009 HB 143; and refund bonds issued by the SPBC, Asset/Liability Commission, and KIA to restructure the

state's debt service and provide approximately \$113 million in budgetary relief for fiscal year 2010. Approximately \$30 million of the new money for projects provided will be from taxable bonds and approximately \$200 million will be from taxable Build America Bonds (BABs).

Senator Carroll asked if the \$113 million in budgetary relief for fiscal year 2010 is for projects or for expenditures. Mr. Antle said for expenditures.

Senator Buford asked if this bond issue will contribute to the structural imbalance of the budget. Mr. Antle said it will contribute to the 2010 budgetary relief. The money is non-recurring.

Representative Damron asked if the GARVEE bonds from the 2008 Session (HB 406) or the state bond pool for roads from the 2009 Session (HB 536) have been issued. Mr. Hicks said the GARVEE bonds have not yet been issued and no plans to issue the bonds are currently in place. Mr. Antle said half of the \$400 million road bonds will be issued in late summer or early fall.

Representative Damron asked about the status of the authorized GARVEE bonds. Mr. Hicks said the GARVEE bonds were directed towards bridges projects and he would have to report back to the Committee regarding the status of these bonds.

Senator Buford asked if there was any need for new language in HB 406 regarding the GARVEE bonds. Mr. Hicks said he was not aware of any need for new language.

Senator Leeper asked how much authorization for bonding the General Assembly gave for fiscal year 2010. Mr. Hicks said most of the authorization passed during the 2008 Session was made available in the first fiscal year. Everything that was authorized through the 2009 Session for bonds is now under a plan of finance and the authority for those projects will not lapse come June 30, 2010.

Senator Leeper asked if the authorization includes HB 2 from the 2009 Session. Mr. Hicks said HB 2 bonds are not currently under a plan of finance. Mr. Antle added that \$100 million of energy bonds from the 2007 Second Special Session are not covered under a plan of finance because the bonds are taxable. Mr. Hicks said that the bonds not under a plan of finance could be re-authorized so that there is not a lapse in authority.

Senator Carroll made a motion to approve the SPBC Revenue and Revenue Refunding Bonds, Project No. 95 Series A, B, C, and D in a principal amount not to exceed \$425 million. The motion was seconded by Representative Rudy and approved unanimously by roll call vote.

Senator Leeper asked if he could get clarification on the status of HB 2. Mr. Hicks responded he would provide the information to the Committee.

Mr. Antle next presented a new bond issue for Kentucky Housing Corporation (KHC) Multifamily Housing Revenue Bonds, Series 2009 (Country Place Apartments Project). Proceeds from this conduit bond issue will be used to finance the acquisition, rehabilitation, and equipping of the 150-unit Country Place Apartments in Hebron, Kentucky. All of the units included in the project will be reserved for families earning 60 percent or less of the area median income.

Senator Carroll asked about occupancy rates and whether there is a waiting list. Brandon Loporto, Summit Housing Partners, said that there is not currently a waiting list, but that the complex is near full occupancy.

Senator Carroll asked if there would be enough occupancy to retire the bonds and what percent of occupancy is required to retire the bonds. Mr. Loporto responded that the project has maintained above a 94 percent occupancy and performs very well.

Senator Carroll made a motion to approve the KHC Multifamily Housing Revenue Bonds, Series 2009 (Country Place Apartments Project). The motion was seconded by Senator Buford and passed unanimously by roll call vote.

Mr. Antle presented the last new bond issue for Morehead State University (MoSU) General Receipts bonds in a total par amount not to exceed \$39,425,000. This bond issue will be structured in one of two ways: 1) In two series: \$30 million MoSU General Receipts Bonds Series 2009 A (Bank-Qualified) and \$9,425,000 MoSU General Receipts Bonds, Taxable Series 2009B – BABs, or 2) In one series: \$39,425,000 MoSU General Receipts Bonds, Taxable Series 2009A – BABs. Proceeds from this bond issue will provide financing for two projects authorized in HB 406 (2008-10 Budget). Construct Campus Recreation Center and Renovate Alumni Tower Residence Hall.

Senator Carroll asked if the interest rate was low because of the BAB program. Mr. Antle said the university would issue bonds in which the interest income is federally taxable; however, under the BAB program the U.S. government reimburses 35 percent of the university's interest payment. In the current market, the program has been successful. Tom Strohmeier, Morgan Keegan, commented that the first BAB issue in Kentucky was the Fayette County School District and the MoSU issue is being modeled after that sale. Morgan Keegan has a dedicated taxable municipal desk and has purchased nine sets of bonds out of 50 sets of BAB issues.

Representative Damron commented that it is his understanding that the BABs are doing well because they are competing with corporate bonds. Municipals seem to be less risky and more attractive than corporate bonds. He said that when the amount of the

federal interest subsidy is taken into account, the net effective cost is less than what the bonds would sell for if they were sold on a tax-exempt basis. Mr. Strohmeier said he agreed with this analysis.

Senator Carroll made a motion to approve the new bond issue for MoSU General Receipts Bonds in a total par amount not to exceed \$39,425,000. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

Mr. Antle reported sixteen new bond issues with the School Facilities Construction Commission (SFCC) debt participation for Belleview Independent (Campbell County), Bullitt County, Carlisle County, Carlisle County, Carlisle County, Covington Independent (Kenton County), Dawson Springs Independent (Hopkins County), Fayette County, Franklin County, Greenup County, Jefferson County, Jessamine County, Leslie County, Marion County, Pike County, and Pikeville Independent (Pike County).

Senator Buford made a motion to approve the new SFCC bond issues. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

Senator Leeper asked Mr. Mullis to report the new local school bond issue. Mr. Mullis said there was one school district bond issue with 100 percent local debt service support for McCracken County. All disclosure information has been filed. No Committee action was needed.

With there being no further business, Senator Carroll made a motion to adjourn the meeting. The motion was seconded and the meeting adjourned at 2:10p.m.